



FRED WILLIAMSON & ASSOCIATES, INC.
Telecommunications Management Services

**Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20544**

October 23rd, 2008

The Honorable Kevin Martin, FCC Chairman
The Honorable Deborah Taylor Tate, FCC Commissioner
The Honorable Michael Copps, FCC Commissioner
The Honorable Jonathon Adelstein, FCC Commissioner
The Honorable Robert McDowell, FCC Commissioner

RE: Written ExParte filed in the Proceedings Captioned in the Matters of: Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; High-Cost Universal Service Support, WC Docket No. 05-337; and Federal State Joint Board on Universal Service, CC Docket No. 96-45

Fred Williamson & Associates, Inc. (FWA) is a consulting firm that works with small rural local exchange carriers (LECs) in several states. We provide a wide variety of consulting service on the state and federal level. This would include annual cost studies that are filed with NECA on an annual basis for our clients. It is FWA's understanding based on media reports and discussions with other industry representatives that the Federal Communications Commission (FCC) is considering adopting significant changes to the rules for reforming intercarrier compensation and universal service funding in its meeting scheduled for November 4, 2008. Among other items under consideration by the Commission, is the possible freeze of the high cost universal service fund (USF) support for rural LECs based on December 2008 annual distribution levels. Such a freeze will have an adverse impact on several of FWA's clients. Specifically, these clients will be precluded from recovering costs they have already incurred or will incur in the near future for facilities necessary to provide quality local exchange and broadband services in the rural exchanges and study areas they serve. This will jeopardize their ability to provide adequate service and to pay back loans used to fund construction.

In this letter FWA is submitting a brief explanation of the negative impacts that would be realized by some of its clients and recommends alternatives for avoiding such impacts.

Twin Valley Telephone Company, Inc.

Twin Valley Telephone Company, Inc. during 2007 and 2008 has expended \$45 million to deploy FTTH facilities in 13 rural Kansas exchanges acquired from Embarq. Additional construction is also planned in 2009. These expenditures are necessary to provide upgrades to basic local telephone service and to make broadband services available to 100% of the customers in these areas. Due to the FCC Rules, effective at the time of the acquisition and during construction, that impacted the timing of recovery of high cost loop support (there is an approximate 18 to 24 month delay), a large portion of these costs are not included in Twin Valley's high cost support in 2008. Consequently, the notion of freezing support as of December 2008 would preclude recovery of a significant portion of these costs and without alternative sources of recovery would cause the company to default on its RUS loan.

Allband Communications Cooperative, Inc.

Allband Communications Cooperative, Inc. is currently performing construction to provide local and broadband services to previously unserved areas in Michigan. The company in 2008 is completing approximately \$3 million of construction to serve very remote areas. Again, due to timing of the construction, the proposed support freeze will preclude recovery of a significant portion of the facility costs and seriously impair Allband's ability to pay back its RUS loan. Also, Allband will have to abandon its plans to provide local and broadband services in additional unserved areas of Michigan.

Blossom Telephone Company, Inc.

Blossom Telephone Company, Inc. has paid an engineering firm to prepare and submit an RUS loan design to expand the availability of broadband services to its rural service areas as well as enhance broadband service for the customers it serves in the town of Blossom, TX. The plans required approximately \$3 million of facilities construction over the next two years. In its loan design submission to RUS, the company included an estimate of the level of universal service support it would receive subsequent to completion of the construction. If support is frozen effective December 2008, Blossom would be precluded from recovering these costs and will have to abandon its plans to expand the availability of broadband services. This would possibly deny rural customers the opportunity to receive services similar to those in urban areas.

Similarly, several FWA client companies have concrete plans to construct facilities over the next few years. A USF freeze will require these companies to abandon these plans.

- A successful means for expanding broadband services has been through acquisitions of larger companies' exchanges by rural LECs. Several FWA clients (H&B Communications, Inc., Totah Communications, Inc., Twin Valley Telephone, Inc., and Allband Communications Cooperative, Inc.) are seriously considering plans to acquire exchanges. Subsequent to acquisition, rural LECs must expend significant amounts of money for construction of facilities capable of providing broadband services to customers that previously did not have access to them. To make this workable in rural areas, universal service support is essential for the recovery of costs and the maintenance of affordable rates. A freeze of high cost support as of December 2008 would seriously inhibit and possibly eliminate the ability of rural LECs to acquire exchanges and expand the availability of broadband services to unserved or underserved rural areas.
- One final concern is jobs and economic growth. In most rural areas, the local telephone company is one of the largest employers. An unintended result of a USF freeze would be the need for employers to freeze wages and require employees to pick up more of the cost of their healthcare insurance up to the point of losing it all together. A freeze on USF would eliminate or severely damper the ability to provide services necessary for the attraction of new jobs and industry growth. Because of USF, Totah Communications, Inc was able to provide basic and advanced services that recently helped attract a WalMart Distribution Center to locate within their service area. This provided jobs in several surrounding rural communities. A freeze in USF would also result in the loss of jobs for telecommunications contractors. It would in essence eliminate the ability of suppliers to sell equipment necessary to continue upgrades in rural areas. This would result in loss of jobs in the manufacturing industry. A real world unintended result of a USF freeze could be the bankruptcy of some rural telecommunications providers; thus, causing loss of jobs, strain on RUS or other financial institutions, and loss of services for rural consumers and businesses.

To avoid these potential adverse impacts, FWA recommends that the FCC take the following actions:

- The Commission should delay any action on Universal Service until it has reviewed a record that includes the impacts and potential consequences of freezing high cost universal service support at December 2008 levels.
- If the Commission elects not to delay action regarding universal service support, FWA recommends the following changes for consideration:
 - The USF for rural LECs should be entirely uncapped. If the entire USF is not entirely uncapped, at a minimum the USF should be rebased to allow rate of return carriers to receive their authorized rate of return for the years during which the carriers have already made expenditures.
 - Allow rural companies the option to freeze support as of December 2008 or extend the freeze for a period to recognize costs incurred through 2011. This will enable companies that have expended, or are in the process of expending significant dollars for facilities in the near future to potentially recover a reasonable level of those costs. The extension would only be made available to companies that can provide detailed information supporting that they have already expended dollars or have concrete plans to do so. Such plans could consist of, but not be limited to, engineering diagrams, loan designs, requests for proposals, equipment contracts or budget projections that were developed prior to December 31, 2008. The extension would require that companies building out to expend the dollars by the end of 2011. During the interim period, companies electing extension of the freeze would continue to receive USF support based on their actual cost developed pursuant to the Part 36 Rules.
 - Finally, an exception should be recognized to allow rate-of-return LECs to serve areas previously without service or acquire unserved or underserved exchanges from another LEC, with support rebased so that it is sufficient to recover costs incurred to provide local telephone services and make broadband services available to all customers.

FWA appreciates the Commission's consideration in this important matter affecting our clients.

Sincerely,

Timothy J. Morrissey
Vice President – Fred Williamson & Associates, Inc.

cc:	Ms. Amy Bender	Chairman Martin's Office
	Mr. Nicholas Alexander	Commissioner McDowell's Office
	Mr. Scott M. Deutchman	Commissioner Copps' Office
	Mr. Scott Bergmann	Commissioner Adelstein's Office
	Mr. Greg Orlando	Commissioner Tate's Office